

## Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 FRB-01 EB-03 EURE-00 SSO-00 INR-05

CIAE-00 OMB-01 NSC-05 NSCE-00 SP-02 L-01 INRE-00 /041 W

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O R 021705Z AUG 76

FM AMEMBASSY ROME

TO SECSTATE WASH DC IMMEDIATE 9204

TREASURY DEPARTMENT WASH DC IMMEDIATE

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

C O N F I D E N T I A L ROME 12490

LIMDIS

TREASURY FOR WIDMAN

PASS FRB

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: PALUMBO COMMENTS ON STABILIZATION PROGRAM AND LOAN  
NEGOTIATIONS

REF: (A) ROME 11956, (B) 12292

SUMMARY. TREASATT SAW TREASURY MINISTRY DIRECTOR GENERAL  
PALUMBO AUGUST 2 CONCERNING STATUS OF ECONOMIC STABILIZATION  
PROGRAM AND OF POSSIBLE FOREIGN LOAN NEGOTIATIONS. PALUMBO  
THOUGHT THAT STABILIZATION PROGRAM WOULD BE FURTHER ELABO-  
RATED ON BASIS DRAFT PROGRAM REPORTED REFTELS A AND B, FIRST  
DURING PRESENTATION OF ANDREOTTI GOVERNMENT PROGRAM TO  
PARLIAMENT AND THEN THROUGH SPECIFIC LEGISLATIVE PROPOSALS. GOI  
WOULD NOT LIKELY APPROACH IMF BEFORE OCTOBER. END SUMMARY.

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1. TREASATT ASKED PALUMBO HOW ANDREOTTI DRAFT

ECONOMIC PROGRAM WOULD EVENTUALLY BE DEVELOPED INTO MORE PRECISE ECONOMIC STABILIZATION PACKAGE FOR PRESENTATION TO POSSIBLE FOREIGN LENDERS ON ASSUMPTION THAT ITALY WILL CONTINUE TO NEED FOREIGN FINANCING, AT LEAST IN 1977 AND POSSIBLY BEYOND. PALUMBO SAID THAT ANDREOTTI PROGRAM AS PRESENTED FIRST TO SENATE ON AUGUST 4 AND THEN TO CHAMBER ON AUGUST 9 WOULD CONTAIN SOMEWHAT MORE DETAIL THAN WAS INCLUDED IN DRAFT PROGRAM. SUBSEQUENTLY, SOME INDIVIDUAL MEASURES WOULD HAVE TO BE SUBMITTED TO PARLIAMENT FOR FORMAL APPROVAL. PALUMBO DID NOT FAVOR PRESENTATION OF SINGLE ECONOMIC PACKAGE TO PARLIAMENT (AS HAS SOMETIMES BEEN ATTEMPTED IN PAST YEARS) ON GROUNDS THAT THIS WOULD TEND, IF ANYTHING, TO COMPLICATE AND DELAY PARLIAMENTARY APPROVAL. IT WOULD PROBABLY BE BETTER FOR THOSE INDIVIDUAL ELEMENTS OF PROGRAM REQUIRING PARLIAMENTARY APPROVAL TO BE PRESENTED SEPARATELY. IN CASES WHERE THERE EXISTED GENERAL AGREEMENT AMONG POLITICAL PARTIES, BUSINESS AND LABOR, IT MIGHT BE POSSIBLE TO USE DECREE LAW PROCEDURES FOR URGENT MATTERS, WITH PARLIAMENTARY RATIFICATION IN SIXTY DAYS THEN REQUIRED. FOR DEALING WITH PROBLEM OF WAGE INDEXATION, EITHER LEGISLATIVE APPROACH OR DIRECT NEGOTIATIONS BETWEEN LABOR UNIONS AND BUSINESS ASSOCIATIONS COULD BE EMPLOYED, WITH LATTER APPROACH MORE POLITICALLY ACCEPTABLE.

2. AS TO RESUMPTION OF GOI TALKS WITH IMF STAFF FOR POSSIBLE NEW STANDBY, PALUMBO THOUGHT THAT THIS WOULD NOT OCCUR BEFORE OCTOBER 1976. IF PARLIAMENT ADJOURNS AROUND MID-AUGUST AND DOES NOT RESUME WORK UNTIL SEPTEMBER, AS SEEMS POSSIBLE, THIS PERIOD COULD BE USED BY NEW GOVERNMENT TO FORMULATE SPECIFIC LEGISLATIVE PROPOSALS AND TO CONSULT WITH BUSINESS AND LABOR. THUS, BY TIME GOI NEGOTIATIONS MAY BE RESUMED WITH OCTOBER, THERE WOULD BE FAIRLY CLEAR OUTLINE OF PRECISE STABILIZATION PROGRAM WHICH GOI COULD OFFER TO IMF AND OTHER FOREIGN LENDERS TO JUSTIFY NEW FOREIGN CREDITS.

3. TREASATT NOTED THAT ANDREOTTI DRAFT PROGRAM HAD REFERRED BOTH TO FOREIGN CREDITS TO FINANCE NEW INVESTMENT AND TO CONSOLIDATION OF OUTSTANDING FOREIGN CREDITS. HE INQUIRED  
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ABOUT PROBABLE GOI APPROACH TO THIS QUESTION. PALUMBO ACKNOWLEDGED THAT PEAKS OF FOREIGN OFFICIAL CREDIT REQUIREMENTS ARE MAINLY IN 1978 AND BEYOND. HOWEVER, FAIRLY LARGE REPAYMENTS WERE ALSO DUE IN 1977. ALSO, GOI MUST STILL NEGOTIATE POSTPONEMENT OF \$2 BILLION GOLD COLLATERAL LOAN WITH GERMAN BUNDESBANK WHICH FALLS DUE EARLY IN SEPTEMBER. PALUMBO DID NOT SAY WHETHER GOI INTENDED TO REQUEST OFFICIAL DEBT CONSOLIDATION DURING 1977 OR WHETHER IT WOULD PREFER TO

WAIT TO SEE EVOLUTION OF ITALY'S BALANCE OF PAYMENTS SITUATION.  
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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC STABILITY, DIPLOMATIC DISCUSSIONS, ECONOMIC PROGRAMS, NEGOTIATIONS, DEVELOPMENT LOANS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 AUG 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ShawDG  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976ROME12490  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760297-0732  
**From:** ROME  
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**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** 76 ROME 11956  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ShawDG  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 31 MAR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <31 MAR 2004 by SmithRJ>; APPROVED <13 AUG 2004 by ShawDG>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PALUMBO COMMENTS ON STABILIZATION PROGRAM AND LOAN NEGOTIATIONS  
**TAGS:** EFIN, IT  
**To:** STATE TRSY  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006